

**FINANCIAL STATEMENTS
JUNE 30, 2007 AND 2006**

Mitchell County Regional Health Center

MITCHELL COUNTY REGIONAL HEALTH CENTER

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MITCHELL COUNTY REGIONAL HEALTH CENTER
BOARD OF TRUSTEES AND HEALTH CENTER OFFICIALS
JUNE 30, 2007 AND 2006

<u>Name</u>	<u>Title</u>	<u>Term Expires</u>
John Lessard	Chairperson	November 30, 2010
Chuck Laures	Vice Chairperson	November 30, 2008
Jan Moody	Secretary/Treasurer	November 30, 2012
Pat Rourick	Member	November 30, 2012
Don Hendrickson	Member	November 30, 2008
Jean Brumm	Member	November 30, 2010
Larry Abel	Member	November 30, 2008

Health Center Officials

Kay Gabriel	Interim Chief Executive Officer
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INDEPENDENT AUDITOR'S REPORT

The Board of Trustees
Mitchell County Regional Health Center
Osage, Iowa

We have audited the accompanying balance sheets of Mitchell County Regional Health Center as of June 30, 2007 and 2006, and the related statements of revenues, expenses, and changes in net assets, and cash flows for the years then ended. These financial statements are the responsibility of the Health Center's management. Our responsibility is to express an opinion on these financial statements based on our audits.

We conducted our audits in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of Mitchell County Regional Health Center as of June 30, 2007 and 2006, and the changes in its financial position and its cash flows for the years then ended in conformity with accounting principles generally accepted in the United States of America.

As indicated in the Health Center's Summary of Significant Accounting Policies in Note 1 to the financial statements, management has elected to report interest expense as an operating expense in the Statement of Revenues, Expenses, and Changes in Net Assets. Governmental Accounting Standards Board Statement No. 34, *Basic Financial Statements and Management's Discussion and Analysis for State and Local Governments*, does not establish a definition of operating revenues and expenses versus nonoperating revenues and expenses. Rather, governments are required to establish their own policy defining operating revenues and expenses and apply the policy consistently. The common practice for governmental health care entities is to include interest expense in nonoperating revenues and expenses.

In accordance with *Government Auditing Standards*, we have also issued our report dated November 19, 2007, on our consideration of the Health Center's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be considered in assessing the results of our audit.

Management's Discussion and Analysis on pages 4 and 5 and the Budgetary Comparison Information on pages 24 and 25 are not required parts of the basic financial statements but are supplementary information required by the Governmental Accounting Standards Board. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the required supplementary information. We did not audit the information and express no opinion on it.

A handwritten signature in black ink that reads "Eide Bailly LLP". The signature is written in a cursive, flowing style.

Dubuque, Iowa
November 19, 2007

Mitchell County Regional Health Center

Management's Discussion and Analysis

This section of Mitchell County Regional Health Center's annual financial report presents background information and management's analysis of the financial performance during the fiscal year that ended June 30, 2007. We encourage readers to read this analysis in conjunction with the financial statements in this report.

Financial Highlights

- The Health Center's total assets increased by \$1,598,384 or 10.3%. A significant portion of this increase was in cash and cash equivalents.
- The Health Center's assets exceeded liabilities by \$11,229,840 at June 30, 2007.
- During the year, the Health Center's total operating revenues increased 18.5% to \$15,705,940, while the operating expenses increased 15.2% to \$15,469,883. The Health Center had income from operations of \$236,057 before affiliation agreement expenses, which is 1.5% of total operating revenues.
- The Health Center made capital equipment and building investments totaling \$1,089,523 during the fiscal year. The source of funding for these items was derived from operations, notes payable and capital lease obligations.

Overview of the Financial Statements

The basic financial statements of the Health Center report information using Governmental Accounting Standards Board (GASB) accounting principles. These statements offer short-term and long-term information about its activities.

The balance sheets provide information about the nature and amounts of the Health Center's assets and liabilities. The balance sheet at June 30, 2007, reports total assets of \$17,169,560 total liabilities of \$5,939,720 and net assets of \$11,229,840.

The statements of revenues, expenses, and changes in net assets provide information on the Health Center's revenues and expenses. These statements indicate total operating revenues of \$15,705,940 and total operating expenses of \$15,469,883 during fiscal year 2007. The operating income was \$78,797 in 2007, compared to an operating loss of \$120,032 in 2006.

There are notes to the financial statements included in the audit report. All of the notes are consistent with and similar to audit reports from prior years. There are also several supplementary schedules that provide the reader detail about the source of the Health Center's revenues and expenses. The reader is encouraged to examine these notes and schedules for additional information.

Long-term Debt

At year-end, Mitchell County Regional Health Center had \$3,684,530 in short-term and long-term debt. The debt was incurred to update facilities and continue to invest in new equipment and technology.

Factors Bearing on Financial Future

Mitchell County Regional Healthcare Center continues to work on updating equipment and technology to provide quality patient services. One significant investment will be the EHR10 initiative to implement Electronic Health records by July of 2008. This initiative focuses on providing safer and better care for patients.

Requests for Information

Questions regarding the information provided in this report or requests for additional financial information should be addressed to the office of the Chief Financial Officer at the following address:

Mitchell County Regional Health Center
616 North Eight Street
Osage, IA 50461

MITCHELL COUNTY REGIONAL HEALTH CENTER
BALANCE SHEETS
JUNE 30, 2007 AND 2006

	<u>2007</u>	<u>2006</u>
ASSETS		
CURRENT ASSETS		
Cash and cash equivalents	\$ 2,349,103	\$ 907,561
Investments	478,985	501,151
Receivables		
Patient, net of estimated uncollectibles		
of \$991,000 in 2007 and \$775,000 in 2006	2,324,756	2,089,921
Current portion of pledges receivable	48,914	18,800
Estimated third-party payor settlements	-	425,130
Succeeding year property tax receivable	512,655	512,032
Other	45,641	13,267
Supplies	336,410	244,191
Prepaid expense	51,022	64,358
	<u>6,147,486</u>	<u>4,776,411</u>
ASSETS LIMITED AS TO USE OR RESTRICTED		
Internally designated for capital improvements	708,006	803,118
Restricted under bond agreement	65,000	65,000
Restricted by master affiliation agreement with MMC-NI	310,563	153,303
	<u>1,083,569</u>	<u>1,021,421</u>
CAPITAL ASSETS		
Land and construction in progress, not being depreciated	356,135	1,002,127
Other capital assets being depreciated	18,318,157	16,651,281
Less accumulated depreciation	(8,854,738)	(8,042,111)
	<u>9,819,554</u>	<u>9,611,297</u>
OTHER ASSETS		
Pledges receivable, net of current portion	80,000	120,000
Debt issue costs, net of accumulated amortization		
of \$13,673 in 2007 and \$10,577 in 2006	38,951	42,047
	<u>118,951</u>	<u>162,047</u>
Total assets	<u><u>\$ 17,169,560</u></u>	<u><u>\$ 15,571,176</u></u>

See notes to financial statements.

	<u>2007</u>	<u>2006</u>
LIABILITIES AND NET ASSETS		
CURRENT LIABILITIES		
Current maturities of long-term debt	\$ 338,339	\$ 270,629
Accounts payable		
Trade	557,824	711,089
Related party	294,259	121,498
Estimated third-party payor settlements	442,000	-
Accrued expenses		
Salaries and wages	88,971	63,068
Paid leave	285,700	241,589
Interest	11,425	11,661
Payroll taxes and employee benefits	62,356	9,869
Deferred revenue for succeeding year property tax receivable	<u>512,655</u>	<u>512,032</u>
Total current liabilities	2,593,529	1,941,435
LONG-TERM DEBT, net of current maturities	<u>3,346,191</u>	<u>3,128,925</u>
Total liabilities	<u>5,939,720</u>	<u>5,070,360</u>
NET ASSETS		
Invested in capital assets, net of related debt	6,173,975	6,253,790
Restricted		
By master affiliation agreement with MMC-NI	180,000	153,303
Under bond agreement for sinking fund	65,000	65,000
Unrestricted	<u>4,810,865</u>	<u>4,028,723</u>
Total net assets	<u>11,229,840</u>	<u>10,500,816</u>
 Total liabilities and net assets	 <u><u>\$ 17,169,560</u></u>	 <u><u>\$ 15,571,176</u></u>

MITCHELL COUNTY REGIONAL HEALTH CENTER
STATEMENTS OF REVENUES, EXPENSES, AND CHANGES IN NET ASSETS
YEARS ENDED JUNE 30, 2007 AND 2006

	<u>2007</u>	<u>2006</u>
OPERATING REVENUES		
Net patient service revenue (net of provision for bad debts of \$594,197 in 2007 and \$372,073 in 2006)	\$ 15,319,341	\$ 12,929,744
Other operating revenues	<u>386,599</u>	<u>323,538</u>
TOTAL OPERATING REVENUES	<u>15,705,940</u>	<u>13,253,282</u>
OPERATING EXPENSES		
Salaries and wages	4,802,215	3,991,193
Employee benefits	1,332,907	1,125,969
Professional fees	3,096,839	2,963,733
Utilities	301,284	223,194
Management, legal, and accounting fees	126,313	410,788
Insurance	51,916	85,705
Supplies and miscellaneous	4,683,647	3,771,823
Depreciation	881,225	681,262
Interest and amortization	<u>193,537</u>	<u>174,920</u>
TOTAL OPERATING EXPENSES	<u>15,469,883</u>	<u>13,428,587</u>
OPERATING INCOME (LOSS) BEFORE AFFILIATION AGREEMENT	236,057	(175,305)
AFFILIATION AGREEMENT REVENUE (EXPENSE)	<u>(157,260)</u>	<u>55,273</u>
OPERATING INCOME (LOSS)	<u>78,797</u>	<u>(120,032)</u>
NONOPERATING REVENUES		
County tax apportionments	510,912	483,641
Investment income	76,863	64,669
Gain on sale of property and equipment	<u>1,600</u>	<u>91</u>
TOTAL NONOPERATING REVENUES	<u>589,375</u>	<u>548,401</u>
REVENUES IN EXCESS OF EXPENSES	668,172	428,369
Capital contributions and grants	<u>60,852</u>	<u>504,814</u>
INCREASE IN NET ASSETS	729,024	933,183
NET ASSETS, BEGINNING OF YEAR	<u>10,500,816</u>	<u>9,567,633</u>
NET ASSETS, END OF YEAR	<u>\$ 11,229,840</u>	<u>\$ 10,500,816</u>

MITCHELL COUNTY REGIONAL HEALTH CENTER
STATEMENTS OF CASH FLOWS
YEARS ENDED JUNE 30, 2007 AND 2006

	<u>2007</u>	<u>2006</u>
OPERATING ACTIVITIES		
Receipts of patient service revenue	\$ 15,951,636	\$ 12,578,387
Payments of salaries and wages	(4,679,714)	(3,985,886)
Payments of supplies and other expenses	(9,809,789)	(8,361,015)
Other receipts and payments, net	<u>354,225</u>	<u>323,667</u>
NET CASH PROVIDED BY OPERATING ACTIVITIES	<u>1,816,358</u>	<u>555,153</u>
NONCAPITAL FINANCING ACTIVITIES		
Noncapital grants and contributions received	60,852	504,814
County tax revenue received	<u>510,912</u>	<u>483,641</u>
NET CASH PROVIDED BY NONCAPITAL FINANCING ACTIVITIES	<u>571,764</u>	<u>988,455</u>
CAPITAL AND RELATED FINANCING ACTIVITIES		
Purchase of property and equipment	(456,092)	(2,439,255)
Proceeds from sale of property and equipment	1,600	5,180
Proceeds from issuance of long-term debt	-	375,000
Principal payments on long-term debt	(358,251)	(244,277)
Payments received on pledges receivable	9,886	192,600
Interest payments on long-term debt	<u>(180,604)</u>	<u>(162,031)</u>
NET CASH USED FOR CAPITAL AND RELATED FINANCING ACTIVITIES	<u>(983,461)</u>	<u>(2,272,783)</u>
CASH FLOWS FROM INVESTING ACTIVITIES		
Interest income	76,863	64,669
Decrease (increase) in investments	22,166	(1,151)
Increase in assets limited as to use and restricted	<u>(62,148)</u>	<u>(186,733)</u>
NET CASH PROVIDED BY (USED FOR) INVESTING ACTIVITIES	<u>36,881</u>	<u>(123,215)</u>
NET INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS	1,441,542	(852,390)
CASH AND CASH EQUIVALENTS AT BEGINNING OF YEAR	<u>907,561</u>	<u>1,759,951</u>
CASH AND CASH EQUIVALENTS AT END OF YEAR	<u><u>\$ 2,349,103</u></u>	<u><u>\$ 907,561</u></u>

(continued)

MITCHELL COUNTY REGIONAL HEALTH CENTER
STATEMENTS OF CASH FLOWS
YEARS ENDED JUNE 30, 2007 AND 2006

	<u>2007</u>	<u>2006</u>
RECONCILIATION OF OPERATING INCOME (LOSS) TO NET CASH PROVIDED BY (USED FOR) OPERATING ACTIVITIES		
Operating income (loss)	\$ 78,797	\$ (120,032)
Adjustments to reconcile operating income (loss) to net cash provided by operating activities		
Interest expense and amortization considered capital and related financing activity	193,537	174,920
Depreciation	881,225	681,262
Provision for bad debts	594,197	372,073
Changes in assets and liabilities		
Patient receivables	(829,032)	(787,783)
Estimated third-party payor settlements	867,130	64,353
Other receivables	(32,374)	129
Supplies	(92,219)	2,238
Prepaid expenses	13,336	(18,905)
Accounts payable	(153,265)	258,635
Accrued expenses	122,265	4,194
Accounts payable-related party	172,761	(75,931)
NET CASH PROVIDED BY OPERATING ACTIVITIES	<u>\$ 1,816,358</u>	<u>\$ 555,153</u>

SUPPLEMENTAL DISCLOSURE OF NONCASH INVESTING AND FINANCING ACTIVITIES

The Health Center entered into capital lease obligations of \$633,431 for equipment in 2007.

MITCHELL COUNTY REGIONAL HEALTH CENTER
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2007 AND 2006

NOTE 1 - ORGANIZATION AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Organization

Mitchell County Memorial Hospital, d/b/a Mitchell County Regional Health Center, (the Health Center) consists of a 25-bed acute care hospital located in Osage, Iowa. The Health Center is the county hospital of Mitchell County and is organized under Chapter 347 of the Code of Iowa. The Health Center provides health care services in accordance with a Master Affiliation Agreement discussed further in Note 8. Services are provided primarily to residents of Mitchell County and the surrounding area in northeastern Iowa, through hospital-based services in Osage, Iowa and physician clinic services in Osage, St. Ansgar, Stacyville, and Riceville, Iowa. The Health Center is exempt from income taxes as a political subdivision.

The Health Center's financial statements are prepared in conformity with accounting principles generally accepted in the United States of America as prescribed by the Governmental Accounting Standards Board.

Reporting Entity

For financial reporting purposes, the Health Center has included all funds, organizations, account groups, agencies, boards, commissions, and authorities. The Health Center has also considered all potential component units for which it is financially accountable, and other organizations for which the nature and significance of their relationship with the Health Center are such that exclusion would cause the Health Center's financial statements to be misleading or incomplete. The Governmental Accounting Standards Board has set forth criteria to be considered in determining financial accountability. These criteria include appointing a voting majority of an organization's governing body, and (1) the ability of the Health Center to impose its will on that organization or (2) the potential for the organization to provide specific benefits to, or impose specific financial burdens on the Health Center. The Health Center has no component units which meet the Governmental Accounting Standards Board criteria.

Basis of Presentation

The balance sheet displays the Health Center's assets and liabilities, with the difference reported as net assets. Net assets are reported in three categories:

- *Invested in capital assets, net of related debt* consists of capital assets, net of accumulated depreciation and debt issue costs and reduced by outstanding balances for bonds, notes and other debt attributable to the acquisition, construction or improvement of those assets.
- *Restricted net assets* result when constraints placed on net asset use are either externally imposed or imposed by law through constitutional provisions or enabling legislation.
- *Unrestricted net assets* consist of net assets not meeting the definition of the two preceding categories. Unrestricted net assets often have constraints on resources imposed by management which can be removed or modified.

When both restricted and unrestricted resources are available for use, it is generally the Health Center's policy to use restricted resources first.

MITCHELL COUNTY REGIONAL HEALTH CENTER
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2007 AND 2006

Measurement Focus and Basis of Accounting

Basis of accounting refers to when revenues and expenses are recognized in the accounts and reported in the financial statements. Basis of accounting relates to the timing of the measurements made, regardless of the measurement focus applied.

The Health Center reports in accordance with accounting principles generally accepted in the United States of America as specified by the American Institute of Certified Public Accountants' *Audit and Accounting Guide for Health Care Organizations* and, as a governmental entity, also provides certain disclosures required by the Governmental Accounting Standards Board (GASB). The accompanying financial statements have been prepared on the accrual basis of accounting. Revenues are recognized when earned, and expenses are recorded when the liability is incurred.

In reporting its financial activity, the Health Center applies all applicable GASB pronouncements for proprietary funds as well as the following pronouncements issued on or before November 30, 1989, unless these pronouncements conflict with or contradict GASB pronouncements: Financial Accounting Standards Board Statements and Interpretations, Accounting Principles Board Opinions, and Accounting Research Bulletins of the Committee on Accounting Procedure.

Use of Estimates

The preparation of financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

Cash and Cash Equivalents

Cash and cash equivalents include highly liquid investments with original maturities of three months or less when purchased, excluding assets limited as to use or restricted or investments.

Patient Receivables

Patient receivables are uncollateralized patient and third-party payor obligations. Unpaid patient receivables are not charged interest on amounts owed.

Payments of patient receivables are allocated to the specific claims identified on the remittance advice or, if unspecified, are applied to the earliest unpaid claim.

The carrying amount of patient receivables is reduced by a valuation allowance that reflects management's estimate of amounts that will not be collected from patients and third-party payors. Management reviews patient receivables by payor class and applies percentages to determine estimated amounts that will not be collected from third parties under contractual agreements and amounts that will not be collected from patients due to bad debts. Management considers historical write off and recovery information in determining the estimated bad debt provision. Management also reviews accounts to determine if classification as charity care is appropriate.

MITCHELL COUNTY REGIONAL HEALTH CENTER
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2007 AND 2006

Property Tax Receivable

Property tax receivable is recognized on the levy or lien date, which is the date the tax asking is certified by the County Board of Supervisors. The succeeding year property tax receivable represents taxes certified by the Board of Supervisors to be collected in the next fiscal year for the purposes set out in the budget for the next fiscal year. However, by statute, the tax asking and budget certification for the following fiscal year becomes effective on the first day of that year. Although the succeeding year property tax receivable has been recorded, the related revenue is deferred and will not be recognized as revenue until the year for which it is levied.

Supplies

Supplies are valued at cost using the first-in, first-out method.

Investments

Investments are valued at purchase cost, or fair market value at the date of acquisition if donated. Investments consist of non-negotiable certificates of deposit.

Capital Assets

Land, buildings, and equipment acquisitions in excess of \$5,000 are capitalized and recorded at cost. Land, buildings, and equipment donated for Health Center operations are recorded as additions to net assets at fair value at the date of receipt. Depreciation is provided over the estimated useful life of each class of depreciable asset and is computed using the straight-line method. Equipment under capital lease obligations is amortized on the straight-line method over the shorter period of the lease term or the estimated useful life of the equipment. Amortization is included in depreciation in the financial statements. The estimated useful lives of land, buildings, and equipment are as follows:

Land improvements	8-20 years
Buildings and leasehold improvements	5-56 years
Major movable equipment	3-25 years

Donated Assets

Donated supplies, investments, and land, buildings, and equipment are recorded at fair value at date of donation, which then is treated as cost.

Pledges receivable

Contributions are recognized at the date the promise is received. Contributions that are restricted by the donor are reported as other revenues if the restrictions expire in the fiscal year in which the contributions are recognized. All other donor-restricted contributions are reported as increases in net assets depending on the nature of the restrictions.

The Health Center uses the allowance method to determine uncollectible pledges receivable. The allowance is based on prior years' experience and management's analysis. No allowance has been recorded as of June 30, 2007 and 2006.

MITCHELL COUNTY REGIONAL HEALTH CENTER
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2007 AND 2006

Assets Limited as to Use or Restricted

Assets limited as to use or restricted include assets which have been internally designated by the Health Center's Board of Trustees, assets which are restricted by debt agreements and assets which have been restricted by contributors or grantors. Board designated assets remain under the control of the Board of Trustees, which may at its discretion later use the funds for other purposes.

Restricted funds are used to differentiate funds which are limited by the donor to specific uses from funds on which the donor places no restriction or which arise as a result of the operation of Health Center for its stated purposes. Resources set aside for Board-designated purposes are not considered to be restricted. Resources restricted by donors or grantors for specific operating purposes are reported in nonoperating revenues to the extent expended within the period.

Debt issue costs

Debt issue costs are amortized over the period the related debt is outstanding using the straight-line method.

Compensated Absences

Health Center employees accumulate a limited amount of earned but unused paid leave hours for subsequent use or for payment upon termination, death, or retirement. The cost of paid leave is recorded as a current liability on the balance sheet and is included in accrued expenses. The compensated absences liability has been computed based on rates of pay in effect at June 30, 2007 and 2006.

Deferred Revenue

Although certain revenues are measurable, they are not available. Available means collected within the current period or expected to be collected soon enough thereafter to be used to pay liabilities of the current period. Deferred revenue represents the amount of assets that have been recognized, but the related revenue has not been recognized since the assets are not collected within the current period or expected to be collected soon enough thereafter to be used to pay liabilities of the current period. Deferred revenue consists of succeeding year property tax receivable.

Operating Revenues and Expenses

The Health Center's statement of revenues, expenses, and changes in net assets distinguishes between operating and nonoperating revenues and expenses. Operating revenues result from exchange transactions associated with providing health care services – the Health Center's principal activity. Non-exchange revenues, including interest income, taxes, grants and unrestricted contributions, are reported as nonoperating revenues. Operating expenses are all expenses incurred to provide health care services, including interest expense.

MITCHELL COUNTY REGIONAL HEALTH CENTER
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2007 AND 2006

Net Patient Service Revenue

The Health Center has agreements with third-party payors that provide for payments to the Health Center at amounts different from its established rates. Payment arrangements include prospectively determined rates, reimbursed costs, discounted charges, and per diem payments. Patient service revenue is reported at the estimated net realizable amounts from patients, third-party payors, and others for services rendered, including estimated retroactive adjustments under reimbursement agreements with third-party payors and a provision for uncollectible accounts. Retroactive adjustments are accrued on an estimated basis in the period the related services are rendered and adjusted in future periods as final settlements are determined.

Grants and Contributions

Revenues from grants and contributions (including contributions of capital assets) are recognized when all eligibility requirements, including time requirements, are met. Grants and contributions may be restricted for either specific operating purposes or for capital purposes. Amounts that are restricted to a specific operating purpose are reported as operating revenues. Amounts that are unrestricted are reported as nonoperating revenues. Amounts restricted to capital acquisitions are reported after nonoperating revenues and expenses.

Advertising Costs

Costs incurred for producing and distributing advertising are expensed as incurred.

Charity Care

To fulfill its mission of community service, the Health Center provides care to patients who meet certain criteria under its charity care policy without charge or at amounts less than its established rates. Revenue from services to these patients is automatically recorded in the accounting system at the established rates, but the Health Center does not pursue collection of the amounts. The resulting adjustments are recorded as adjustments to patient service revenue, depending on the timing of the charity determination.

Investment Income

Interest on cash and deposits is included in nonoperating revenues and expenses.

County Tax Revenue

Taxes are included in nonoperating revenues when received and distributed by the County Treasurer. No provision is made in the financial statements for taxes levied in the current year to be collected in a subsequent year.

Reclassifications

Certain items from the 2006 financial statements have been reclassified to conform to the current year presentation.

Other Significant Accounting Policies

Other significant accounting policies are set forth in the financial statements and the notes thereto.

MITCHELL COUNTY REGIONAL HEALTH CENTER
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2007 AND 2006

NOTE 2 - CHARITY CARE

The Health Center maintains records to identify and monitor the level of charity care it provides. The amounts of charges foregone for services and supplies furnished under its charity care policy during the years ended June 30, 2007 and 2006, was \$107,146 and \$22,623, respectively. The estimated costs of the charges foregone, based on the cost to charge ratio of the Medicare cost report, for the years ended June 30, 2007 and 2006, were \$87,178 and \$18,407, respectively.

NOTE 3 - NET PATIENT SERVICE REVENUE

The Health Center has agreements with third-party payors that provide for payments to the Health Center at amounts different from its established rates. A summary of the payment arrangements with major third-party payors follows:

Medicare: The Health Center is licensed as a Critical Access Hospital (CAH). The Health Center is reimbursed for most inpatient and outpatient services at cost with final settlement determined after submission of annual cost reports by the Health Center and are subject to audits thereof by the Medicare fiscal intermediary. The Health Center's Medicare cost reports have been settled by the Medicare fiscal intermediary through the year ended June 30, 2005. The Health Center's classification of patients under the Medicare program and the appropriateness of their admission are subject to an independent review by a peer review organization under contract with the Health Center. Clinical services are reimbursed on a cost reimbursable basis or on a fixed fee schedule.

Medicaid: Inpatient and outpatient services rendered to Medicaid program beneficiaries are paid based on a cost reimbursement methodology. The Health Center is reimbursed for cost reimbursable items at a tentative rate with final settlement determined after submission of annual cost reports by the Health Center and audits thereof by the Medicaid fiscal intermediary. The Health Center's Medicaid cost reports have been processed by the Medicaid fiscal intermediary through June 30, 2004.

Other Payors: The Health Center has also entered into payment agreements with certain commercial insurance carriers and other organizations. The basis for payment to the Health Center under these agreements may include prospectively determined rates and discounts from established charges.

Laws and regulations governing the Medicare and Medicaid programs are extremely complex and subject to interpretation. As a result, there is at least a reasonable possibility that recorded estimates will change by a material amount in the near term.

Revenue from the Medicare and Medicaid programs accounted for approximately 49% and 3%, respectively, of the Health Center's net patient service revenue for the year ended June 30, 2007, and 40% and 3%, respectively, of the Health Center's net patient service revenue for the year ended June 30, 2006.

MITCHELL COUNTY REGIONAL HEALTH CENTER
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2007 AND 2006

A summary of patient service revenue, contractual adjustments, and provision for bad debts is as follows for the years ended June 30, 2007 and 2006:

	<u>2007</u>	<u>2006</u>
Total patient service revenue	<u>\$ 21,137,230</u>	<u>\$ 16,595,414</u>
Contractual adjustments		
Medicare	(3,398,686)	(1,974,059)
Medicaid	(243,142)	(223,282)
Other	<u>(1,581,864)</u>	<u>(1,096,256)</u>
Total contractual adjustments	<u>(5,223,692)</u>	<u>(3,293,597)</u>
Net patient service revenue	<u>15,913,538</u>	13,301,817
Provision for bad debts	<u>(594,197)</u>	<u>(372,073)</u>
Net patient service revenue (net of provision for bad debts)	<u><u>\$ 15,319,341</u></u>	<u><u>\$ 12,929,744</u></u>

NOTE 4 - DEPOSITS AND INVESTMENTS

The Health Center's deposits in banks at June 30, 2007 and 2006, were entirely covered by Federal Depository Insurance, or the State Sinking Fund in accordance with Chapter 12C of the Code of Iowa. This chapter provides for additional assessments against the depositories to insure there will be no loss of public funds.

The Health Center is authorized by statute to invest public funds in obligations of the United States government, its agencies and instrumentalities; certificates of deposit or other evidences of deposit at federally insured depository institutions approved by the Board of Trustees; prime eligible bankers acceptances; certain high rated commercial paper; perfected repurchase agreements; certain registered open-end management investment companies; certain joint investment trusts, and warrants or improvement certificates of a drainage district.

At June 30, 2007 and 2006, the Health Center's amounts of cash and deposits are as follows:

	<u>2007</u>	<u>2006</u>
Checking and savings accounts	<u>\$ 1,083,569</u>	<u>\$ 1,021,421</u>
Certificates of deposit	<u>478,985</u>	<u>501,151</u>
Total deposits	<u><u>\$ 1,562,554</u></u>	<u><u>\$ 1,522,572</u></u>
Included in the following balance sheet captions:		
Investments	<u>\$ 478,985</u>	<u>\$ 501,151</u>
Assets limited as to use or restricted	<u>1,083,569</u>	<u>1,021,421</u>
	<u><u>\$ 1,562,554</u></u>	<u><u>\$ 1,522,572</u></u>

MITCHELL COUNTY REGIONAL HEALTH CENTER
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2007 AND 2006

Interest rate risk is the exposure to fair value losses resulting from rising interest rates. The Health Center's investment policy limits the investment of operating funds (funds expected to be expended in the current budget year or within 15 months of receipt) to instruments that mature within 397 days. Funds not identified as operating funds may be invested in investments with maturities longer than 397 days, but the maturities shall be consistent with the needs and use of the Health Center. Maturities are consistent with this policy.

NOTE 5 - CAPITAL ASSETS

Summaries of capital assets at June 30, 2007 and 2006, are as follows:

	Balance June 30, 2006	Additions	Deductions	Transfers	Balance June 30, 2007
Cost					
Land	\$ 229,512	\$ -	\$ -	\$ -	\$ 229,512
Land improvements	449,786	-	-	6,949	456,735
Buildings	11,364,929	20,542	-	798,315	12,183,786
Leasehold improvements	55,257	-	-	-	55,257
Major movable equipment	4,781,309	930,705	(69,500)	(20,133)	5,622,381
Construction in progress	772,615	142,724	-	(788,716)	126,623
Total	17,653,408	\$ 1,093,971	\$ (69,500)	\$ (3,585)	18,674,294
Accumulated depreciation					
Land improvements	172,836	\$ 36,091	\$ -	\$ -	208,927
Buildings	4,060,649	425,421	-	-	4,486,070
Leasehold improvements	52,661	688	-	-	53,349
Major movable equipment	3,755,965	419,929	(69,500)	-	4,106,394
Total	8,042,111	\$ 882,129	\$ (69,500)	\$ -	8,854,740
Capital assets, net	\$ 9,611,297				\$ 9,819,554

MITCHELL COUNTY REGIONAL HEALTH CENTER
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2007 AND 2006

	Balance June 30, 2005	Additions	Deductions	Transfers	Balance June 30, 2006
Cost					
Land	\$ 176,512	\$ 53,000	\$ -	\$ -	\$ 229,512
Land improvements	311,710	138,076	-	-	449,786
Buildings	9,767,718	1,597,211	-	-	11,364,929
Leasehold improvements	55,257	-	-	-	55,257
Major movable equipment	4,565,672	369,465	(153,828)	-	4,781,309
Construction in progress	493,796	1,936,385	-	(1,657,566)	772,615
Total	15,370,665	\$ 4,094,137	\$ (153,828)	\$ (1,657,566)	17,653,408
Accumulated depreciation					
Land improvements	168,963	\$ 3,873	\$ -	\$ -	172,836
Buildings	3,694,800	365,849	-	-	4,060,649
Leasehold improvements	51,702	959	-	-	52,661
Major movable equipment	3,596,807	307,897	(148,739)	-	3,755,965
Total	7,512,272	\$ 678,578	\$ (148,739)	\$ -	8,042,111
Capital assets, net	<u>\$ 7,858,393</u>				<u>\$ 9,611,297</u>

The majority of construction in progress at June 30, 2007, represents costs incurred for the installation of Electronic Health Record software. The project is expected to be completed in July 2008 at an estimated total cost of \$1,300,000. The project will be financed through the issuance of long-term debt and USDA grants.

MITCHELL COUNTY REGIONAL HEALTH CENTER
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2007 AND 2006

NOTE 6 - LONG-TERM DEBT

A schedule of changes in long-term debt for 2007 and 2006, is as follows:

	Balance June 30, 2006	Additions	(Payments) Amortization	Balance June 30, 2007	Amounts Due Within One Year
Hospital Refunding Revenue					
Note, Series 2002	\$ 3,042,112	\$ -	\$ (159,141)	\$ 2,882,971	\$ 166,607
Promissory notes	244,280	-	(20,572)	223,708	30,317
Notes payable	174,419	-	(71,858)	102,561	23,248
Obligations under capital leases	19,886	633,431	(101,106)	552,211	118,167
	3,480,697	633,431	(352,677)	3,761,451	338,339
Deferred loss on bond refinancing	(132,220)	-	9,794	(122,426)	-
Accumulated amortization on deferred loss	51,077	-	(5,572)	45,505	-
Total long-term debt	\$ 3,399,554	\$ 633,431	\$ (348,455)	\$ 3,684,530	\$ 338,339
	June 30, 2005	Additions	Amortization	June 30, 2006	Within One Year
Hospital Refunding Revenue					
Note, Series 2002	\$ 3,196,534	\$ -	\$ (154,422)	\$ 3,042,112	\$ 159,141
Promissory notes	-	248,923	(4,643)	244,280	20,572
Notes payable	166,921	75,000	(67,502)	174,419	73,109
Obligations under capital leases	37,596	-	(17,710)	19,886	17,807
	3,401,051	323,923	(244,277)	3,480,697	270,629
Deferred loss on bond refinancing	(142,014)	-	9,794	(132,220)	-
Accumulated amortization on deferred loss	-	51,077	-	51,077	-
Total long-term debt	\$ 3,259,037	\$ 375,000	\$ (234,483)	\$ 3,399,554	\$ 270,629

The Health Center is subject to certain covenants under the bond agreement including a requirement to maintain certain measures of financial performance and maintain a sinking fund account. The Health Center was in compliance with these covenants for the years ended June 30, 2007 and 2006.

Hospital Refunding Revenue Note, Series 2002:

The Health Center entered into a note payable with First Citizens National Bank, Mason City, Iowa, on February 1, 2003, in the amount of \$3,520,000. The purpose of the note payable was to refund the 1997 Hospital Revenue Bonds in order to reduce the overall effective interest rates on the outstanding bond obligation. Payments of principal and interest at 4.75% are payable monthly through February 2020. The note is collateralized by the patient revenues of the Health Center.

MITCHELL COUNTY REGIONAL HEALTH CENTER
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2007 AND 2006

Promissory Notes:

The Health Center entered into two promissory notes with Heartland Power Cooperative, Thompson, Iowa, on September 1, 2005, in the amounts of \$240,000 and \$60,000. These notes have been discounted using an imputed interest rate of 5%. The discount of \$51,077 is reported with long-term debt and will be amortized over the life of the related debt using the straight-line method. The purpose of the promissory notes were to build the new St. Ansgar Clinic in St. Ansgar, Iowa. The notes are due in annual installments of \$24,000 at zero percent interest and \$6,000 including interest at 2% through September 2015, respectively.

Notes Payable:

The Health Center entered into four notes for certain equipment. The first note, entered into during fiscal year 2002, was for ultrasound equipment and was for a term of five years at an interest rate of 7%, with payments of principal and interest of \$1,434 due semi-monthly. The second note, also entered into during fiscal year 2002, was for mammography equipment and was for a period of five years at an interest rate of 7%, with payments of principal and interest of \$592 due semi-monthly. Both notes were paid off during fiscal year 2007.

The third note, entered into during fiscal year 2005, is for telemetry equipment and is for a term of five years and bears interest at a rate of 3.95%, with payments of principal and interest of \$1,569 due monthly. The notes are collateralized by the patient revenues of the Health Center. The fourth note, entered into during the 2006 fiscal year, is due to MMC-NI (Note 8) and is for a cataract microscope with a term of five years and bears zero percent interest with payments of principal of \$1,250 due monthly.

Obligations Under Capital Leases:

The Health Center entered into three capital leases for equipment. The first agreement, entered into during fiscal year 2004, is for a period of five years and bears interest at a rate of 7.4%, with payments of principal and interest of \$96 due monthly. The second lease, entered into during fiscal year 2007, is for a period of five years and bears interest at a rate of 6.0%, with payments of principal and interest of \$10,362 due monthly. The third lease, entered into during fiscal year 2007, is for a period of five years and bears interest at a rate of 6.0%, with payments of principal and interest of \$1,884 due monthly.

Aggregate future payments of principal and interest on the long-term debt obligations are as follows:

Year Ending June 30,	Long-term debt	
	Principal	Interest
2008	\$ 220,172	\$ 146,709
2009	230,418	136,543
2010	234,274	126,276
2011	226,815	116,082
2012	226,938	105,880
2013-2017	1,279,330	351,552
2018-2021	791,293	56,058
	<u>\$ 3,209,240</u>	<u>\$ 1,039,100</u>

MITCHELL COUNTY REGIONAL HEALTH CENTER
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2007 AND 2006

NOTE 7 - PENSION AND RETIREMENT BENEFITS

The Health Center contributes to the Iowa Public Employees Retirement System (IPERS) which is a cost-sharing multiple-employer defined benefit pension plan administered by the State of Iowa. IPERS provides retirement and death benefits, which are established by state statute, to plan members and beneficiaries. IPERS issues a publicly available financial report that includes financial statements and required supplementary information. The report may be obtained by writing to IPERS, P.O. Box 9117, Des Moines, Iowa, 50306-9117.

Plan members are required to contribute 3.70% of their annual covered salary, and the Health Center is required to contribute 5.75% of annual covered payroll for the years ended June 30, 2007, 2006, and 2005. Contribution requirements are established by State statute. The Health Center's contribution to IPERS for the years ended June 30, 2007, 2006, and 2005, were \$268,700, \$226,300, and \$205,500, respectively, equal to the required contributions for each year.

NOTE 8 - LEASES

The Health Center leases certain equipment under noncancelable long-term lease agreements. Certain leases have been recorded as capitalized leases and others as operating leases. Total lease expense for the years ended June 30, 2007 and 2006, for all operating leases was \$58,921 and \$70,563 respectively. The capitalized leased assets consist of:

	<u>2007</u>	<u>2006</u>
Major movable equipment	\$ 638,248	\$ 85,995
Less accumulated amortization (included as depreciation on the accompanying financial statements)	<u>(97,424)</u>	<u>(74,505)</u>
	<u>\$ 540,824</u>	<u>\$ 11,490</u>

Minimum future lease payments for noncancelable operating leases are as follows:

<u>Year Ending June 30,</u>	<u>Capital Leases</u>	<u>Operating Leases</u>
2008	\$ 147,984	\$ 31,412
2009	148,063	31,412
2010	146,952	31,412
2011	146,952	31,412
2012	<u>36,690</u>	<u>30,021</u>
Total minimum lease payments	\$ 626,641	<u>\$ 155,669</u>
less interest	<u>(74,430)</u>	
Present value of minimum lease payments	<u>\$ 552,211</u>	

MITCHELL COUNTY REGIONAL HEALTH CENTER
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2007 AND 2006

NOTE 9 - RELATED PARTY TRANSACTIONS

Master Affiliation Agreement

The Health Center has a Master Affiliation Agreement with Mercy Medical Center – North Iowa (MMC-NI) to provide hospital, physician, and other health care services in Mitchell County and surrounding counties in northeastern Iowa. As a part of this Master Affiliation Agreement, the Health Center entered into a Professional Service Agreement with MMC-NI whereby MMC-NI provides professional medical services as well as staff employees in support of the physician medical services. Amounts paid to MMC-NI for the provision of these services amounted to \$2,564,615 and \$2,561,289 for the years ended June 30, 2007 and 2006, respectively.

Operating gains and losses from the operations of the Health Center and MMC-NI services are shared equally in accordance with the formulas outlined in the Master Affiliation Agreement. Total operating gains (losses) to be allocated to MMC-NI amounted to \$157,260 and (\$55,273), respectively, for the years ended June 30, 2007 and 2006.

Management Services Agreement

The Health Center has a contractual agreement with MMC-NI under which MMC-NI provides administrative staff, management consultation, and other services to the Health Center. The arrangement does not alter the authority or responsibility of the Board of Trustees of the Health Center. Expenses for the administrative and management services for the years ended June 30, 2007 and 2006, were \$405,228 and \$380,780, respectively.

Due to and from Affiliated Organization

As of June 30, 2007 and 2006, the Health Center's records reflect an amount due to MMC-NI of \$294,259 and \$121,498, respectively, for the various services and distributions related to these agreements. At June 30, 2007, the Health Center also had a note payable of \$ 55,000 (Note 6) due to MMC-NI.

NOTE 10 - CONTINGENCIES

Malpractice Insurance

The Health Center has insurance coverage to provide protection for professional liability losses on a claims made basis subject to a limit of \$1 million per claim and an aggregate limit of \$3 million. Should the claims-made policy not be renewed or replaced with equivalent insurance, claims based on occurrences during its term, but reported subsequently, will be uninsured.

MITCHELL COUNTY REGIONAL HEALTH CENTER
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2007 AND 2006

Healthcare Legislation and Regulation

The healthcare industry is subject to numerous laws and regulations of federal, state, and local governments. These laws and regulations include, but are not necessarily limited to, matters such as licensure, accreditation, government healthcare program participation requirements, reimbursement for patient services and Medicare and Medicaid fraud and abuse. Recently, government activity has increased with respect to investigations and allegations concerning possible violations of fraud and abuse statutes and regulations by healthcare providers. Violation of these laws and regulations could result in expulsion from government healthcare programs together with the imposition of significant fines and penalties, as well as significant repayments for patient services previously billed.

Management believes that the Health Center is in substantial compliance with fraud and abuse as well as other applicable government laws and regulations. While no regulatory inquiries have been made, compliance with such laws and regulations is subject to government review and interpretation, as well as regulatory actions unknown or unasserted at this time.

NOTE 11 - RISK MANAGEMENT

The Health Center is exposed to various risks of loss related to torts; theft of, damage to, and destruction of assets; errors and omissions; injuries to employees; and natural disasters. These risks are covered by commercial insurance purchased from independent third parties. The Health Center assumes liability for any deductibles and claims in excess of coverage limitations. Settled claims from these risks have not exceeded commercial insurance coverage for the past three years.

NOTE 12 - CONCENTRATION OF CREDIT RISK

The Health Center grants credit without collateral to its patients, most of whom are insured under third-party payor agreements. The mix of receivables from third-party payors and patients at June 30, 2007 and 2006, was as follows:

	<u>2007</u>	<u>2006</u>
Medicare	31.1%	36.0%
Medicaid	4.8%	4.4%
Blue Cross	17.5%	12.7%
Other third-party payors and patients	<u>46.6%</u>	<u>46.9%</u>
	<u>100.0%</u>	<u>100.0%</u>

Mitchell County Regional Health Center

MITCHELL COUNTY REGIONAL HEALTH CENTER
BUDGETARY COMPARISON SCHEDULE OF REVENUES, EXPENSES, AND
CHANGES IN NET ASSETS - BUDGET AND ACTUAL (CASH BASIS)
YEAR ENDED JUNE 30, 2007

	Actual Accrual Basis	Accrual Adjustments	Actual Cash Basis	Budget	Variance Favorable (Unfavorable)
Estimated amount to be raised by taxation	\$ 510,912	\$ -	\$ 510,912	\$ 512,032	\$ (1,120)
Estimated other revenues/receipts	15,845,255	609,807	16,455,062	14,282,234	2,172,828
	<u>16,356,167</u>	<u>609,807</u>	<u>16,965,974</u>	<u>14,794,266</u>	<u>2,171,708</u>
Expenses/disbursements	15,627,143	(142,693)	15,484,450	15,100,162	(384,288)
Net	729,024	752,500	1,481,524	(305,896)	<u>\$ 1,787,420</u>
Balance beginning of year	<u>10,500,816</u>	<u>(8,070,683)</u>	<u>2,430,133</u>	<u>4,083,137</u>	
Balance end of year	<u>\$ 11,229,840</u>	<u>\$ (7,318,183)</u>	<u>\$ 3,911,657</u>	<u>\$ 3,777,241</u>	

MITCHELL COUNTY REGIONAL HEALTH CENTER
NOTE TO REQUIRED SUPPLEMENTARY INFORMATION - BUDGETARY REPORTING
YEAR ENDED JUNE 30, 2007

NOTE 1 – BUDGETARY COMPARISON

This budgetary comparison is presented as Required Supplementary Information in accordance with Governmental Accounting Standards Board Statement No. 41 for governments with significant budgetary prospective differences resulting from the Health Center preparing a budget on the cash basis of accounting.

The Board of Trustees annually prepares and adopts a budget designating the amount necessary for the improvement and maintenance of the Health Center on the cash basis following required public notice and hearing in accordance with Chapters 24 and 347 of the Code of Iowa. The Board of Trustees certifies the approved budget to the appropriate county auditors. The budget may be amended during the year utilizing similar statutorily prescribed procedures. Formal and legal budgetary control is based on total expenditures. The Health Center did not amend its original budget during the year ended June 30, 2007.

For the year ended June 30, 2007, the Health Center's expenditures exceeded the amount budgeted.

Mitchell County Regional Health Center

INDEPENDENT AUDITOR'S REPORT ON SUPPLEMENTARY INFORMATION

The Board of Trustees
Mitchell County Regional Health Center
Osage, Iowa

Our audits were performed for the purpose of forming an opinion on the basic financial statements taken as a whole. The supplementary information is presented for purposes of additional analysis and is not a required part of the basic financial statements. Such information, except for the Schedule of Statistical Information on page 35 marked "unaudited," has been subjected to the auditing procedures applied in the audits of the basic financial statements and, in our opinion, is fairly stated in all material respects in relation to the basic financial statements taken as a whole.

A handwritten signature in black ink that reads "Erik Sully LLP". The signature is written in a cursive, flowing style.

Dubuque, Iowa
November 19, 2007

MITCHELL COUNTY REGIONAL HEALTH CENTER
SCHEDULES OF NET PATIENT SERVICE REVENUE
YEARS ENDED JUNE 30, 2007 AND 2006

	TOTAL	
	2007	2006
PATIENT CARE SERVICES		
Medical and surgical	\$ 1,609,312	\$ 1,192,283
Intensive care unit	19,251	488
Nursery	37,654	4,392
Swing-bed	179,408	116,553
Subtotal	1,845,625	1,313,716
OTHER PROFESSIONAL SERVICES		
Operating room	1,122,592	441,883
Labor and delivery room	28,156	4,227
Anesthesiology	577,020	246,396
Radiology	3,410,383	2,842,197
Laboratory	2,230,219	1,984,265
Blood supplies	136,463	112,211
Respiratory therapy	19,341	18,125
Physical therapy	414,505	310,066
Speech therapy	51,374	34,912
Electrocardiography	607,892	525,178
Medical and surgical supplies	507,864	212,891
Pharmacy	1,849,947	1,157,809
Vascular laboratory	78,771	42,516
Audiology	105,748	148,040
Emergency room	1,760,841	1,682,429
Ambulance	482,165	406,123
Osage clinic	3,956,890	3,427,840
St. Ansgar clinic	1,734,855	1,451,492
Stacyville clinic	104,485	91,314
Riceville clinic	219,240	164,407
Subtotal	19,398,751	15,304,321
Total	21,244,376	16,618,037
Charity care	(107,146)	(22,623)
Total patient service revenue	21,137,230	16,595,414

INPATIENT		OUTPATIENT	
2007	2006	2007	2006
\$ 1,410,396	\$ 1,042,800	\$ 198,916	\$ 149,483
19,251	488	-	-
37,654	4,392	-	-
179,408	116,553	-	-
1,646,709	1,164,233	198,916	149,483
141,206	16,407	981,386	425,476
27,721	4,164	435	63
98,555	12,580	478,465	233,816
302,161	225,175	3,108,222	2,617,022
440,973	363,243	1,789,246	1,621,022
53,844	38,185	82,619	74,026
694	1,022	18,647	17,103
104,965	83,934	309,540	226,132
24,795	17,496	26,579	17,416
119,053	92,003	488,839	433,175
104,293	32,930	403,571	179,961
633,713	494,102	1,216,234	663,707
-	-	78,771	42,516
-	-	105,748	148,040
7,926	14,669	1,752,915	1,667,760
88,996	76,477	393,169	329,646
501	244,528	3,956,389	3,183,312
35,550	103,537	1,699,305	1,347,955
-	7,605	104,485	83,709
-	14,405	219,240	150,002
2,184,946	1,842,462	17,213,805	13,461,859
\$ 3,831,655	\$ 3,006,695	\$ 17,412,721	\$ 13,611,342

(continued)

MITCHELL COUNTY REGIONAL HEALTH CENTER
SCHEDULES OF NET PATIENT SERVICE REVENUE
YEARS ENDED JUNE 30, 2007 AND 2006

	TOTAL	
	2007	2006
CONTRACTUAL ADJUSTMENTS		
Medicare	\$ (3,398,686)	\$ (1,974,059)
Medicaid	(243,142)	(223,282)
Other	<u>(1,581,864)</u>	<u>(1,096,256)</u>
Total contractual adjustments	<u>(5,223,692)</u>	<u>(3,293,597)</u>
NET PATIENT SERVICE REVENUE	15,913,538	13,301,817
PROVISION FOR BAD DEBTS	<u>(594,197)</u>	<u>(372,073)</u>
NET PATIENT SERVICE REVENUE (NET OF PROVISION FOR BAD DEBTS)	<u>\$ 15,319,341</u>	<u>\$ 12,929,744</u>

MITCHELL COUNTY REGIONAL HEALTH CENTER
SCHEDULES OF OTHER OPERATING REVENUES
YEARS ENDED JUNE 30, 2007 AND 2006

	<u>2007</u>	<u>2006</u>
OTHER OPERATING REVENUES		
Grant income	\$ 94,558	\$ 69,126
Cafeteria	77,736	79,866
Rental	35,109	21,209
Vending machines	14,151	15,132
Medical records transcription fees	689	819
Miscellaneous	<u>164,356</u>	<u>137,386</u>
 TOTAL OTHER OPERATING REVENUES	 <u><u>\$ 386,599</u></u>	 <u><u>\$ 323,538</u></u>

MITCHELL COUNTY REGIONAL HEALTH CENTER
SCHEDULES OF OPERATING EXPENSES
YEARS ENDED JUNE 30, 2007 AND 2006

	2007	2006
NURSING ADMINISTRATION		
Salaries and wages	\$ 198,922	\$ 47,018
Supplies and other expenses	24,628	6,341
	<u>223,550</u>	<u>53,359</u>
ADULTS AND PEDIATRICS		
Salaries and wages	932,666	964,116
Supplies and other expenses	278,418	59,270
	<u>1,211,084</u>	<u>1,023,386</u>
OPERATING AND RECOVERY ROOMS		
Salaries and wages	190,291	131,143
Supplies and other expenses	140,363	116,460
	<u>330,654</u>	<u>247,603</u>
ANESTHESIOLOGY		
Salaries and wages	130,358	31,786
Supplies and other expenses	160,927	268,269
	<u>291,285</u>	<u>300,055</u>
RADIOLOGY		
Salaries and wages	50,581	17,861
Supplies and other expenses	822,926	882,536
	<u>873,507</u>	<u>900,397</u>
LABORATORY		
Salaries and wages	334,178	317,909
Supplies and other expenses	371,846	370,539
	<u>706,024</u>	<u>688,448</u>
BLOOD		
Salaries and wages	7,303	4,627
Supplies and other expenses	107,043	86,714
	<u>114,346</u>	<u>91,341</u>
RESPIRATORY THERAPY		
Salaries and wages	640	883
Supplies and other expenses	173	309
	<u>813</u>	<u>1,192</u>
PHYSICAL THERAPY		
Salaries and wages	117,007	-
Supplies and other expenses	135,674	184,698
	<u>252,681</u>	<u>184,698</u>
SPEECH PATHOLOGY		
Supplies and other expenses	32,323	27,868
CARDIAC REHABILITATION		
Salaries and wages	36,555	29,809
Supplies and other expenses	9,623	2,771
	<u>46,178</u>	<u>32,580</u>
CORONARY CARE UNIT		
Supplies and other expenses	264	228

(continued)

MITCHELL COUNTY REGIONAL HEALTH CENTER
SCHEDULES OF OPERATING EXPENSES
YEARS ENDED JUNE 30, 2007 AND 2006

	2007	2006
ELECTROCARDIOGRAPHY		
Supplies and other expenses	\$ 110,370	\$ 112,604
MEDICAL SUPPLIES		
Salaries and wages	14,548	12,267
Supplies and other expenses	176,336	89,872
	190,884	102,139
PHARMACY		
Salaries and wages	26,462	13,888
Supplies and other expenses	479,047	382,548
	505,509	396,436
EMERGENCY SERVICES		
Salaries and wages	213,796	192,150
Supplies and other expenses	358,882	383,192
	572,678	575,342
AMBULANCE		
Salaries and wages	125,406	117,220
Supplies and other expenses	31,060	35,539
	156,466	152,759
SLEEP LAB		
Salaries and wages	3,211	4,064
Supplies and other expenses	15,199	25,281
	18,410	29,345
OSAGE CLINIC		
Salaries and wages	463,773	475,995
Supplies and other expenses	2,046,845	1,851,391
	2,510,618	2,327,386
ST. ANSGAR CLINIC		
Salaries and wages	244,589	305,837
Supplies and other expenses	918,600	815,446
	1,163,189	1,121,283
STACYVILLE CLINIC		
Salaries and wages	21,650	25,461
Supplies and other expenses	84,430	57,453
	106,080	82,914
RICEVILLE CLINIC		
Salaries and wages	54,408	60,677
Supplies and other expenses	99,922	78,793
	154,330	139,470
MEDICAL RECORDS		
Salaries and wages	236,013	200,018
Supplies and other expenses	44,441	45,765
	280,454	245,783
DIETARY		
Salaries and wages	161,544	145,682
Supplies and other expenses	92,245	77,995
	253,789	223,677

(continued)

MITCHELL COUNTY REGIONAL HEALTH CENTER
SCHEDULES OF OPERATING EXPENSES
YEARS ENDED JUNE 30, 2007 AND 2006

	2007	2006
OPERATION OF PLANT		
Salaries and wages	\$ 190,008	\$ 139,904
Supplies and other expenses	501,258	368,165
	<u>691,266</u>	<u>508,069</u>
HOUSEKEEPING		
Salaries and wages	133,422	110,241
Supplies and other expenses	42,458	31,653
	<u>175,880</u>	<u>141,894</u>
LAUNDRY		
Salaries and wages	27,724	21,355
Supplies and other expenses	34,654	26,858
	<u>62,378</u>	<u>48,213</u>
ADMINISTRATIVE SERVICES		
Salaries and wages	887,160	621,282
Supplies and other expenses	1,140,044	1,066,685
	<u>2,027,204</u>	<u>1,687,967</u>
UNASSIGNED EXPENSES		
Depreciation	881,225	681,262
Interest and amortization	193,537	174,920
Employee benefits	1,332,907	1,125,969
	<u>2,407,669</u>	<u>1,982,151</u>
TOTAL OPERATING EXPENSES	<u>\$ 15,469,883</u>	<u>\$ 13,428,587</u>

MITCHELL COUNTY REGIONAL HEALTH CENTER
SCHEDULES OF PATIENT RECEIVABLES AND ALLOWANCE FOR DOUBTFUL ACCOUNTS
JUNE 30, 2007 AND 2006

ANALYSIS OF AGING

Age of Accounts	2007		2006	
	Amount	Percent to Total	Amount	Percent to Total
30 days or less	\$ 1,665,901	50.79%	\$ 1,485,255	51.84%
31 to 90 days	883,476	26.93%	710,637	24.80%
91 to 180 days	377,007	11.49%	306,977	10.71%
181 days and over	353,756	10.79%	362,481	12.65%
	<u>3,280,140</u>	<u>100.00%</u>	<u>2,865,350</u>	<u>100.00%</u>
Less: Allowance for doubtful accounts	(360,030)		(318,649)	
Allowance for contractual adjustments	(595,354)		(456,780)	
Net	<u>\$ 2,324,756</u>		<u>\$ 2,089,921</u>	
Net patient service revenue per calendar day-excluding bad debt	<u>\$ 41,971</u>		<u>\$ 35,424</u>	
Days of net revenue in net accounts receivable at year end	<u>55</u>		<u>59</u>	

ANALYSIS OF ALLOWANCE FOR DOUBTFUL ACCOUNTS

	2007		2006	
	Amount	Percent of Net Patient Service Revenue	Amount	Percent of Net Patient Service Revenue
Beginning balance	<u>\$ 318,649</u>	2.08%	<u>\$ 368,100</u>	2.85%
Add:				
Provision for bad debts	594,197	3.88%	372,073	2.88%
Recoveries previously written off	123,241	0.80%	87,180	0.67%
	<u>717,438</u>		<u>459,253</u>	
Less:				
Accounts written off	<u>(676,057)</u>	-4.41%	<u>(508,704)</u>	-3.93%
Ending balance	<u>\$ 360,030</u>	2.35%	<u>\$ 318,649</u>	2.46%

MITCHELL COUNTY REGIONAL HEALTH CENTER
SCHEDULES OF SUPPLIES AND PREPAID EXPENSE
JUNE 30, 2007 AND 2006

	<u>2007</u>	<u>2006</u>
SUPPLIES		
Central stores and central supply	\$ 271,151	\$ 197,214
Pharmacy	<u>65,259</u>	<u>46,977</u>
Total supplies	<u><u>\$ 336,410</u></u>	<u><u>\$ 244,191</u></u>
 PREPAID EXPENSE		
Insurance	\$ 11,000	\$ 17,721
Other	<u>40,022</u>	<u>46,637</u>
Total prepaid expense	<u><u>\$ 51,022</u></u>	<u><u>\$ 64,358</u></u>

MITCHELL COUNTY REGIONAL HEALTH CENTER
SCHEDULES OF STATISTICAL INFORMATION (UNAUDITED)
YEARS ENDED JUNE 30, 2007 AND 2006

	<u>2007</u>	<u>2006</u>
PATIENT DAYS		
Acute	1,864	1,621
Swing-bed	531	417
Newborn	77	9
	<u>2,472</u>	<u>2,047</u>
Totals	<u>2,472</u>	<u>2,047</u>
ADMISSIONS		
Acute	667	534
Swing-bed	60	57
Newborn	35	5
	<u>762</u>	<u>596</u>
Totals	<u>762</u>	<u>596</u>
DISCHARGES		
Acute	667	535
Swing-bed	60	57
Newborn	34	4
	<u>761</u>	<u>596</u>
Totals	<u>761</u>	<u>596</u>
AVERAGE LENGTH OF STAY		
Acute	2.8	3.0
Swing-bed	8.9	7.3
LICENSED BEDS	<u>25</u>	<u>25</u>
EMERGENCY ROOM AND OUTPATIENT VISITS	<u>22,386</u>	<u>22,774</u>
CLINIC VISITS		
Osage (excluding optometry)	22,231	22,133
Optometry	3,528	3,422
St. Ansgar	10,298	10,225
Stacyville	589	673
Riceville	1,590	1,449

**REPORT ON INTERNAL CONTROL OVER FINANCIAL REPORTING AND ON
COMPLIANCE AND OTHER MATTERS BASED ON AN AUDIT OF FINANCIAL
STATEMENTS PERFORMED IN ACCORDANCE WITH
GOVERNMENT AUDITING STANDARDS**

The Board of Trustees
Mitchell County Regional Health Center
Osage, Iowa

We have audited the accompanying balance sheets of Mitchell County Regional Health Center as of June 30, 2007 and 2006, and the related statements of revenues, expenses, and changes in net assets, and cash flows for the years then ended and have issued our report thereon dated November 19, 2007. We conducted our audits in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States.

Internal Control Over Financial Reporting

In planning and performing our audit, we considered the Health Center's internal control over financial reporting as a basis for designing our auditing procedures for the purpose of expressing our opinion on the financial statements, but not for the purpose of expressing our opinion on the effectiveness of the Health Center's internal control over financial reporting. Accordingly, we do not express an opinion on the effectiveness of the Health Center's internal control over financial reporting.

Our consideration of internal control over financial reporting was for the limited purpose described in the preceding paragraph and would not necessarily identify all deficiencies in internal control over financial reporting that might be significant deficiencies or material weaknesses. However, as discussed below, we identified certain deficiencies in internal control over financial reporting that we consider to be significant deficiencies.

A control deficiency exists when the design or operation of the control does not allow management or employees, in the normal course of performing their assigned functions, to prevent or detect misstatements on a timely basis. A significant deficiency is a control deficiency, or combination of control deficiencies, that adversely affects the Health Center's ability to initiate, authorize, record, process, or report financial data reliably in accordance with accounting principles generally accepted in the United States of America such that there is more than a remote likelihood a misstatement of the Health Center's financial statements that is more than inconsequential will not be prevented or detected by the Health Center's internal control. We consider the deficiencies in internal control described in Part I of the accompanying Schedule of Findings to be significant deficiencies in internal control over financial reporting.

A material weakness is a significant deficiency, or combination of significant deficiencies that results in more than a remote likelihood a material misstatement of the financial statements will not be prevented or detected by the Health Center's internal control.

Our consideration of the internal control over financial reporting was for the limited purpose described in the first paragraph of this section and would not necessarily identify all deficiencies in the internal control that might be significant deficiencies and, accordingly, would not necessarily disclose all significant deficiencies that are also considered to be material weaknesses. However, of the significant deficiencies described above, we believe that none are material weaknesses.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the financial statements of the Health Center are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, non-compliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit, and accordingly, we do not express such an opinion. The results of our tests disclosed no instances of non-compliance or other matters that are required to be reported under *Government Auditing Standards*. However, we noted a certain immaterial instance of non-compliance or other matters that are described in Part II of the accompanying Schedule of Findings.

Comments involving statutory and other legal matters about the Health Center's operations for the year ended June 30, 2007, are based exclusively on knowledge obtained from procedures performed during our audit of the financial statements of the Health Center and are reported in Part II of the accompanying Schedule of Findings. Since our audit was based on tests and samples, not all transactions that might have had an impact on the comments were necessarily audited. The comments involving statutory and other legal matters are not intended to constitute legal interpretations of those statutes.

The Health Center's responses to findings identified in our audit are described in the accompanying Schedule of Findings. While we have expressed our conclusions on the Health Center's responses, we did not audit the Health Center's responses, and accordingly, we express no opinion on them.

We also noted certain additional matters that we reported to management of the Health Center in a separate letter dated November 19, 2007.

This report, a public record by law, is intended solely for the information and use of the officials, employees, and constituents of the Health Center and other parties to whom the Health Center may report. This report is not intended to be and should not be used by anyone other than these specified parties.

We would like to acknowledge the many courtesies and assistance extended to us by personnel of Mitchell County Regional Health Center during the course of our audit. Should you have any questions concerning any of the above matters, we shall be pleased to discuss them with you at your convenience.

A handwritten signature in black ink that reads "Erik Bailly LLP". The signature is written in a cursive, flowing style.

Dubuque, Iowa
November 19, 2007

MITCHELL COUNTY REGIONAL HEALTH CENTER
SCHEDULE OF FINDINGS
YEAR ENDED JUNE 30, 2007

Part I: Findings Related to the Financial Statements:

SIGNIFICANT DEFICIENCIES:

I-A-07 Segregation of Duties – One important aspect of internal controls is the segregation of duties among employees to prevent an individual employee from handling duties which are incompatible. The limited number of office personnel prevents a proper segregation of accounting functions necessary to assure optimal internal control.

Recommendation – This is not an unusual condition in organizations of your size. We realize that with a limited number of office employees, segregation of duties is difficult. We also recognize that in some instances it may not be cost effective to employ additional personnel for the purpose of segregating duties. However, the Health Center should continually review its internal control procedures, other compensating controls and monitoring procedures to obtain the maximum internal control possible under the circumstances. Furthermore, the Health Center should periodically evaluate its procedures to identify potential areas where the benefits of further segregation of duties or addition of other compensating controls and monitoring procedures exceed the related costs.

Response – Management concurs with the finding and recommendation. We are aware of the situation and will continually review the assignment of duties, other compensating controls and monitoring procedures to obtain the maximum internal control possible under the circumstances.

Conclusion – Response accepted.

I-B-07 Preparation of Financial Statements – As auditors, we were requested to draft the financial statements and accompanying notes to the financial statements in accordance with generally accepted accounting principles.

Recommendation – We realize that obtaining the expertise necessary to prepare the financial statements, including all necessary disclosures in accordance with accounting principles generally accepted in the United States of America can be considered costly and ineffective. However, the Health Center's management and those charged with governance should decide whether to accept the degree of risk associated with this condition because of cost or other considerations.

Response – We are aware of the situation and will continually review the risks associated with this condition because of cost or other considerations.

Conclusion – Response accepted.

MITCHELL COUNTY REGIONAL HEALTH CENTER
SCHEDULE OF FINDINGS
YEAR ENDED JUNE 30, 2007

Part II: Other Findings Related to Required Statutory Reporting:

II-A-07 Certified Budget – Disbursements during the year ended June 30, 2007, exceeded the amount budgeted by \$384,288.

Recommendation – The budget should have been amended in accordance with Chapter 24.9 of the Code of Iowa before disbursements were allowed to exceed the budget.

Response – The budget will be amended in the future, if applicable.

Conclusion – Response accepted.

II-B-07 Questionable Expenditures – We noted no expenditures that we believe would be in conflict with the requirements of public purpose as defined in an Attorney General’s opinion dated April 25, 1979.

II-C-07 Travel Expense – No expenditures of Health Center money for travel expenses of spouses of Health Center officials and/or employees were noted.

II-D-07 Business Transactions – We noted no material business transactions between the Health Center and Health Center officials and/or employees.

II-E-07 Board Minutes – No transactions were found that we believe should have been approved in the Board minutes but were not.

II-F-07 Deposits and Investments – No instances of non-compliance with the deposit and investment provisions of Chapters 12B and 12C of the Code of Iowa and the Health Center’s investment policy were noted.

II-G-07 Publication of Bills Allowed and Salaries – Chapter 347.13(14) of the Code of Iowa states “There shall be published quarterly in each of the official newspapers of the County as selected by the Board of Supervisors pursuant to Section 349.1 the schedule of bills allowed and there shall be published annually in such newspapers the schedule of salaries paid by job classification and category...” The Health Center published a schedule of bills allowed and a schedule of salaries paid as required by the Code of Iowa.